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The Commodities Feed: Diesel release drives down distillate margins, capping oil

Oil prices are under pressure amid plans for additional coordinated releases from strategic reserves. Middle distillate cracks have also weakened as the releases are set to include diesel



Energy- Trump rules out diesel export ban

Despite ICE Brent breaking below $100/bbl several times last week, the move was relatively short-lived. The market continues to settle above this key level as it digests a number of diverging developments. On the bearish side, oil flows through the Strait of Hormuz appear to be trending higher. G7 nations have agreed to release 100m barrels of oil, including diesel, while oil flows along Saudi's East-West pipeline continue to recover. On the bullish side, there's still little sign of an end to tensions. We have seen an increase in attacks on commercial vessels in the Persian Gulf recently.

On Friday, the G7 agreed to release 100m barrels of oil from reserves, which will be coordinated by the IEA. It will include diesel, which will be front-loaded. These releases will begin immediately for a period of 4 months, while a substantial diesel release will occur over the first 20 days. This action reflects the growing tightness in the diesel market as we move

closer towards the Northern Hemisphere winter and the threat of a US diesel export ban. The G7 move has President Trump ruling out the possibility of an export ban.

The release of diesel supplies, together with a reduced risk of a US diesel export bans, has weighed on middle distillate crack spreads. The ICE gasoil crack narrowed from around $85/bbl in the middle of last week to about $70/bbl currently. This is helpful in the short term, but the only permanent solution to the tightness in middle distillate markets is getting refined products flowing from the Persian Gulf once again.

Further reinforcing expectations of looser crude oil market conditions, Saudi Arabia reduced the official selling price for November-loading Arab Light crude into Asia by $3/bbl, widening its discount to the benchmark to $5/bbl. The Saudis have been shipping larger volumes through the Strait of Hormuz in recent weeks, given the outage of the East-West pipeline. More recently, oil flows through the pipeline have been recovering. Reports are that flows are back to more than 80% of capacity, which will allow crude exports from Yanbu to also recover.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 13,812 lots over the last reporting week to 204,302 lots, which is the smallest position held since early August. Signs of increased oil flows from the Persian Gulf would likely leave speculators reluctant to carry too much risk at the moment.

Unsurprisingly, OPEC+ over the weekend left production levels unchanged for November. Throughout the US-Iran conflict, the group announced cumulative supply increases of 1.65m b/d. However, these were largely paper increases, as ongoing supply disruptions prevented a corresponding rise in actual production. These supply increases will become a reality once we get to the other side of the disruptions in the Strait of Hormuz.

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